

Senate Foreign Affairs, Defence and Trade Legislation Committee

Report to the Senate

Introduction

1.1 On 10 February 2011, the Senate referred the following documents to the committee for examination and report:

- Particulars of certain proposed additional expenditure in respect of the year ending 30 June 2011 relating to the Defence portfolio and the Foreign Affairs and Trade portfolio, and
- Particulars of proposed additional expenditure in respect of the year ending 30 June 2011.

1.2 The committee has considered the proposed additional expenditure for the year ending 30 June 2011. It has received evidence from the Parliamentary Secretary for Defence, and the Minister for Broadband, Communications and the Digital Economy, representing the following ministers: the Minister for Defence, the Minister for Veterans' Affairs; the Minister for Foreign Affairs and the Minister for Trade and officers of the departments and agencies concerned.

1.3 The committee met in public session on 23 and 24 February 2011. Further written explanations provided by departments and agencies will be presented separately in volumes of additional information. This information will also be placed on the committee's internet site (www.aph.gov.au/senate_fadt).

Questions on notice

1.4 The committee resolved, under Standing Order 26, that written answers and additional information should be submitted to the committee by close of business on Thursday, 21 April 2011.

Late return of answers to questions on notice

1.5 The committee notes that the Department of Defence's answers to questions on notice from the budget supplementary round were not received by the due date of 10 December 2010.

1.6 The committee received the last of the budget supplementary estimates answers from the department in two batches, five and two days before the commencement of the additional estimates hearings.

1.7 At the commencement of Defence estimates on 23 February 2011, the Secretary of Defence, Dr Ian Watt AO, briefed the committee about the late answers Dr Watt's address to the committee is set out below.

1.8 It should be noted that at the conclusion of the estimates hearings, the committee allows approximately seven weeks for departments and agencies to return

their answers. This time frame is intended to provide sufficient time for departments to prepare and lodge their answers and for committee members to then consider these responses in time for the following round of estimates hearings. Committee members are unable to give answers due consideration if they are received just before the commencement of the next round.

1.9 The committee understands the work that goes into preparing the answers to questions on notice and is particularly appreciative of the departments and agencies that endeavour to meet the date set for the return of answers.

Defence portfolio

Department of Defence

1.10 The committee acknowledged the attendance of Air Chief Marshal Angus Houston AC, AFC, Chief of the Defence Force (CDF), Dr Ian Watt AO, Secretary of the Department of Defence, and officers of the Defence organisation.¹

Secretary's opening statement

1.11 Dr Watt made a statement to the committee, which focused on a number of topical issues, commencing with the Strategic Reform Program (SRP).² He stated that the SRP is on track and building on the foundations established in 2009-2010:

Defence successfully delivered larger savings than the \$797 million in the cost reductions program for 2009-2010 without adverse impacts on capability or safety. This has been reinvested to help deliver Force 2030.

To remain on track we need to deliver \$1 billion in cost reductions in the 2011 financial year. Defence groups are operating within lower budgets by combining reduced discretionary expenditure, greater cost consciousness, the flowthrough of previous years' savings initiatives and the rollout of SRP reform initiatives.³

1.12 In other areas of business, Dr Watt stated that the reforms have resulted in a reduction of personnel from all groups and services, but predominantly from Defence support, Army and Air Force:

This has been achieved largely by way of standardisation, reducing low-value tasks and removing duplication. Again, a new contract combining removals and relocation contracts is providing efficiency gains and is saving approximately \$4 million per annum.

...

1 Transcript page numbers for the Defence portfolio refer to *proof Committee Hansard*, 23 February 2011. (See the transcript index at the back of this report.)

2 *Proof Committee Hansard*, 23 February 2011, pp. 5-7.

3 *Proof Committee Hansard*, 23 February 2011, p. 5.

There is however, no underestimation of what lies ahead for Defence. The reforms and the savings targets will become more demanding. This means that Defence will have to make increasingly more difficult decisions. We will need to work hard to adhere to the schedule for achieving the cost reductions program in future years. Risk management, especially in relation to interdependencies across the reform streams, will also be imperative.⁴

1.13 In conclusion, the Secretary addressed the matter of late answers to questions on notice from the budget supplementary round in October 2010. He noted that many of the 54 questions had multiple parts, amounting to 237 questions:

Some of the questions involved sensitive and complex issues that required extensive consultation, research and verification. In some instances, follow-up advice and more detailed explanations were required and sought. Despite the best efforts of Defence, we were unable to complete the task within the appropriate time frames.

...The delay is genuinely regretted. There is no getting around the fact that we need to do better coming out of this estimates hearing.⁵

Chief of the Defence Force's opening statement

1.14 Air Chief Marshal Angus Houston addressed the committee, beginning with a summary of Australia's assistance to New Zealand after the earthquake in Christchurch and the ongoing assistance required:⁶

The ADF will remain responsive to any tasking in receives from the Australian government in response to requests from the government of New Zealand. ...We have a longstanding direct link between our two operational headquarters. That was activated almost immediately after the earthquake, and there has been frequent contact as the New Zealanders get on top of the scope and scale of the disaster that they are dealing with.

Over the past two months the ADF has supported a number of response and recovery operations in Queensland, Victoria, Western Australia, the Northern Territory and Timor-Leste, following a series of natural disasters. This was the largest ADF response to civil emergencies to date. All told, we were able to deploy the equivalent of an entire joint brigade group of about 3,500 people in the two major operations, as well as the other defence assistance, the civil community tasks, at short notice and during a period when our people are normally stood down for the Christmas and New Year period to spend time with their families.⁷

4 *Proof Committee Hansard*, 23 February 2011, p. 6.

5 *Proof Committee Hansard*, 23 February 2011, p. 7.

6 *Proof Committee Hansard*, 23 February 2011, pp. 7-10.

7 *Proof Committee Hansard*, 23 February 2011, p. 7.

1.15 Air Chief Marshal Houston gave the committee an update on the situation in Afghanistan, after having attended the NATO Military Committee Chiefs of Defence meeting in Brussels in late January:

I would characterise the mood amongst military leaders as cautiously optimistic. Progress in counter insurgency is always gradual, but 2010 was clearly a positive year for the coalition...ISAF [International Security Assistance Force] has a fully integrated counterinsurgency strategy, which has now been in place for over one year. Progress made in 2010 has shown our strategy is sound. ISAF's long-term commitment is solid, and with our Afghan partners we will succeed. Over the past year we have made some promising gains, with ISAF's focus on conducting shape, clear, hold and build operations in Helmand and Kandahar provinces paying dividends. The challenge now is to consolidate the gains we have made, maintain our momentum and make these gains irreversible. A major operation will begin this year, named Operation Omid 1390, to build on these successes. Australia will contribute to this operation through our ongoing involvement in Oruzgan province and also in northern Kandahar.⁸

1.16 CDF concluded his summary of Afghanistan, by offering his sincere condolences to the families of Corporal Richard Atkinson and Sapper Jamie Larcombe.⁹

1.17 A copy of both statements and accompanying documentation were provided to the committee at the hearing.

1.18 Other topics examined during the hearing included:

- Seaworthiness of the HMAS *Manoora* and HMAS *Kanimbla*. (pp. 10-25, 28-31, 39-40, 61).
- Use of watercraft on *Manoora* and *Kanimbla* (pp. 25-26).
- Project of concern: Joint Air-to-Surface stand-off Missile (JASSM) project (pp. 26-28, 61).
- AUSMIN and the bilateral Force Posture Review Working Group (pp. 31-34, 39).
- Reform of amphibious and afloat support ship repair and management practices (pp. 34-40, 61).
- Australian Defence Forces assistance in the floods in Queensland (p. 40).
- HMAS *Success* inquiry and the cultural attitudes on HMAS *Success* in particular and in the ADF in general (pp. 40-44).
- The Black review into accountability on bases in the field (pp. 44-46, 61).

8 *Proof Committee Hansard*, 23 February 2011, p. 8.

9 *Proof Committee Hansard*, 23 February 2011, pp. 8-9.

Portfolio overview and budget summary

- 44th anniversary of the battle of Long Tan (pp. 46-51).
- Posthumous awarding of the Victoria Cross (pp. 51-54).
- Obesity in the Australian Defence Force (pp. 54-56).
- Post traumatic stress disorder (pp. 56-57).
- ADF assistance during the floods in Victoria and ongoing defence support (pp. 57-58).
- ADF assistance during the cyclone in Queensland. Funding relief operations. Cyclone damage to Defence facilities (pp. 58-60).
- LHD in Townsville (p. 88).
- RAAF Scherger base in Queensland (pp. 88-89).
- Visits by the minister to cadet bases (pp. 89, 80).
- Fort Direction in southern Tasmania (pp. 89-90).
- Security checks on people enlisting in the ADF (pp. 90-91).

Defence Materiel Organisation

- Middle East Area of Operations (MEAO) contracts and operations (pp. 62-63).
- Sustainment of Collins Class submarines (pp. 63-75).
- HMAS *Success* in Singapore (pp. 75-79).
- Projects of concern (pp. 79-88).

Department of Veterans' Affairs

1.19 The committee acknowledged the attendance of Mr Ian Campbell PSM, Secretary, and officers of the Department of Veterans' Affairs (DVA).

1.20 Matters raised by the committee during the hearing included:

Portfolio overview/Corporate and general matters

- Military Rehabilitation and Compensation Arrangements (MRCA) review (pp. 92-96).
- Post traumatic stress disorder (pp. 96-97).
- James and the Military Rehabilitation and Compensation Commission (MRCC) (pp. 97-98).
- Veterans and Veterans Families Counselling Service (VVCS) and the co-location of offices (pp. 98-102).
- Appointment of the director of the Australian War Memorial (AWM) (pp. 102-105).

- AWM funding issues (pp. 105-113).
- The centenary of Gallipoli (pp. 113-114, 119-122).
- Building Excellence in Support and Training (BEST) grants and means testing assessment (pp. 114-115).
- DVA staffing issues and claims processing (pp. 116).
- Provision by DVA of information about ex-service organisations (pp. 116-118).
- Services and ongoing support to young war widows (pp. 118-119).

Australian War Memorial

1.21 The committee acknowledged the attendance of Major General Steve Gower (Retd), Director, and officers of the Australian War Memorial (AWM). Matters raised by the committee included:

- AWM budgetary arrangements (pp. 122-124).
- Final volume of the official history of the Vietnam War (p. 124).
- Volume three of the official history of the Vietnam War and a further study into Agent Orange (p. 124).
- Hall of Valour and the Lancaster display (p. 125).

Foreign Affairs and Trade portfolio

Department of Foreign Affairs and Trade

1.22 The committee acknowledged the attendance at the hearings of Mr Dennis Richardson, Secretary, and officers of the Department of Foreign Affairs and Trade.¹⁰

1.23 The committee questioned the Secretary about budget cuts of \$45.5 million across the portfolio, with the focus on where the savings will come from. Mr Richardson explained:

...we are still working through that for the good reason that those savings commence from 1 July this year and we will still not make final decisions about where the savings will come from until we get further into this year's budget process, because we need to consider that as a whole rather than piecemeal. Of the \$45.5 million over three years, around \$31 million or \$32 million of that will be from the department. We do not propose to reduce or to cut our global network to meet these savings.¹¹

10 Transcript page numbers for the Foreign Affairs and Trade portfolio refer to *proof Committee Hansard*, 24 February 2011. (See the transcript index at the back of this report.)

11 *Proof Committee Hansard*, 24 February 2011, p. 5.

1.24 The committee pressed for specific information about where the savings would come from, citing Mr Richardson's remarks from the department 2009-2010 annual report, where he made the observation that resource constraints continue to be a challenge to the department. Mr Richardson responded:

I suppose different parts of the department would put up their hand to say that they have the greatest resource constraints. From where I sit, it is a general resource constraint in terms of the demands on the department both in Canberra and overseas. It particularly comes into sharp relief when we have crises.

We were responding initially to a situation in Tunisia, then in Egypt, now in Libya, Bahrain and the like and, of course, Christchurch. We manage them and we manage them well, but we manage them very much by robbing Peter to pay Paul and the like. We do that simply by sharp prioritisation.¹²

1.25 The committee questioned the Secretary about the restructuring of the deputy secretary arrangements in the context of budget savings. Mr Richardson responded that, historically, there have been no more than four:

A fifth deputy secretary was added a few years back...in the context of APEC. When I came to the job there was a vacancy and there was a general view that continuing with a fifth would be worthwhile. In the year that I have been in the job, I have come to a view that five deputies are too many...I think that money is probably better spent elsewhere in the department...If our budget was increased by 10 per cent tomorrow there would not be a reinstatement of the fifth deputy.¹³

1.26 Other matters raised by the committee during the hearings included:

Portfolio overview

- Timeliness of answers to questions on notice from the previous round (p. 5).
- Staff in Mr Rudd's office (pp. 7-9, 15).
- Earthquake crisis in New Zealand and staffing issues (pp. 9-12).
- Investigations of acts of fraud in Australian embassies (pp. 12-13).
- Conduct and Ethics Unit (pp. 13-15).
- Consular matters: The Middle East and DFAT's response to the crisis in Egypt; crisis in Libya (pp. 15-20; 20-21, 26-29).
- Mr Rudd and his visits overseas (pp. 22-26).

12 *Proof Committee Hansard*, 24 February 2011, p. 5.

13 *Proof Committee Hansard*, 24 February 2011, pp. 5-6.

- Contracts with Hawker Britton and expenditure on conferences (p. 26).
- WikiLeaks material and a briefing from the United States; Mr Assange (pp. 29-48).
- Status of Australia's ambassadors in Japan and China (pp. 48-49).

Outcome 1

North Asia

- Australia-China consular consultations: Mr Stern Hu; Mr Sun Xiaodi; Mr Matthew Ng; Ms Rebiya Kadeer (pp. 49-53).
- Australia's involvement in World Expo in Shanghai (pp. 53-54).
- Prisoner transfer treaty with China (pp. 54-55).
- Australia's case on whaling against Japan in the International Court of Justice (pp. 55-56).
- Australian human rights dialogue with China (pp. 62-65).

South East Asia

- Regional processing centre in East Timor (pp. 56-62).
- Post election situation in Burma (pp. 65-67).
- Incident in Ha Long Bay, Vietnam (pp. 67-68).

Africa

- Cost to Australia to hire Qantas flights out of Cairo, sea transport out of Tripoli (pp. 70-71).

Europe

- Act of Settlement 1701 (pp. 71-72).
- Australian diplomatic posts in Europe (pp. 72-73).

South and West Asia, the Middle East

- Commonwealth Games in India and outstanding debts to contractors (pp. 73-74).
- Local boycotts on goods and services from Israel (pp. 74-75).
- Nomination of Sri Lankan ambassador to Australia (pp. 75-76).
- Afghanistan and Mr Said Musa (pp. 76-77).

International organisations, legal and environment

- Australian rationale for proceedings in the international court of justice in relation to Japanese whaling (pp. 77-78).

- Trade and treaty implications on the introduction of plain packaging of tobacco products (pp. 79-80).
- Environmental and child labour law issues relating to the use of rainforest timber for imported paper products (pp. 89-91).

Bilateral, regional and multi-lateral trade negotiations, and Trade development/policy coordination

- Trade in rock lobster between Australia and China (pp. 80-82).
- Update on the progress on free trade agreements with China, Japan and South Korea (pp. 82-84, 87).
- World Trade Organisation (pp. 84-85, 86, 87-88).
- Anti-dumping arrangements (pp. 85-86).
- Conclusion to the Doha Round (pp. 86-87).
- Export Finance Insurance Corporation (EFIC) (pp. 91-97).

Austrade

1.27 The committee acknowledged the attendance of Mr Peter Grey, Chief Executive Officer, and officers representing Austrade.

1.28 Matter raised by the committee at the hearing:

- Austrade's relationship with Security and Australian Federal Police investigations (pp. 88-89).

AusAID

1.29 The committee acknowledged the attendance of Mr Peter Baxter, Director General, and officers representing AusAID. The matters of most significance raised by the committee during the hearing included:

- Role of AusAID in the establishment of UN Women (pp. 97-98).
- Australian assistance to encourage women's representations (pp. 98-99).
- Australia's participation in the International Alliance for Reproductive, Maternal, and Newborn Health (pp. 99-100).
- World Wildlife Fund Australia (p. 101).
- AusAID funding of abortion services and the International Planned Parenthood Federation (pp. 101-102).
- Joint Adviser Review report (pp. 102-104).
- AusAID funding of the website GunPolicy.org (pp. 105, 112-113, 114).

- Technical adviser positions contracted by AusAID (pp. 105-106).
- Safety and security of aid workers in Papua New Guinea (pp. 106-107).
- Management of aid funding in PNG (pp. 107-108).
- Australian funding of education programs in Indonesia (pp. 108-112).
- Contract to distribute text books in Papua New Guinea (p. 113).
- RAMSI Women in Government program (pp. 113-114).

Acknowledgements

1.30 For their assistance during its hearings, the committee thanks Senator the Hon Stephen Conroy and Senator the Hon David Feeney. The committee also acknowledges the attendance and cooperation of the many departmental and agency officers and the services of various parliamentary staff involved in the estimates process.



Senator Mark Bishop

Chair